

The Long Run

INVESTMENT LETTER | JULY 2020

***Be kind,
for everyone is fighting a hard battle.***
- Plato

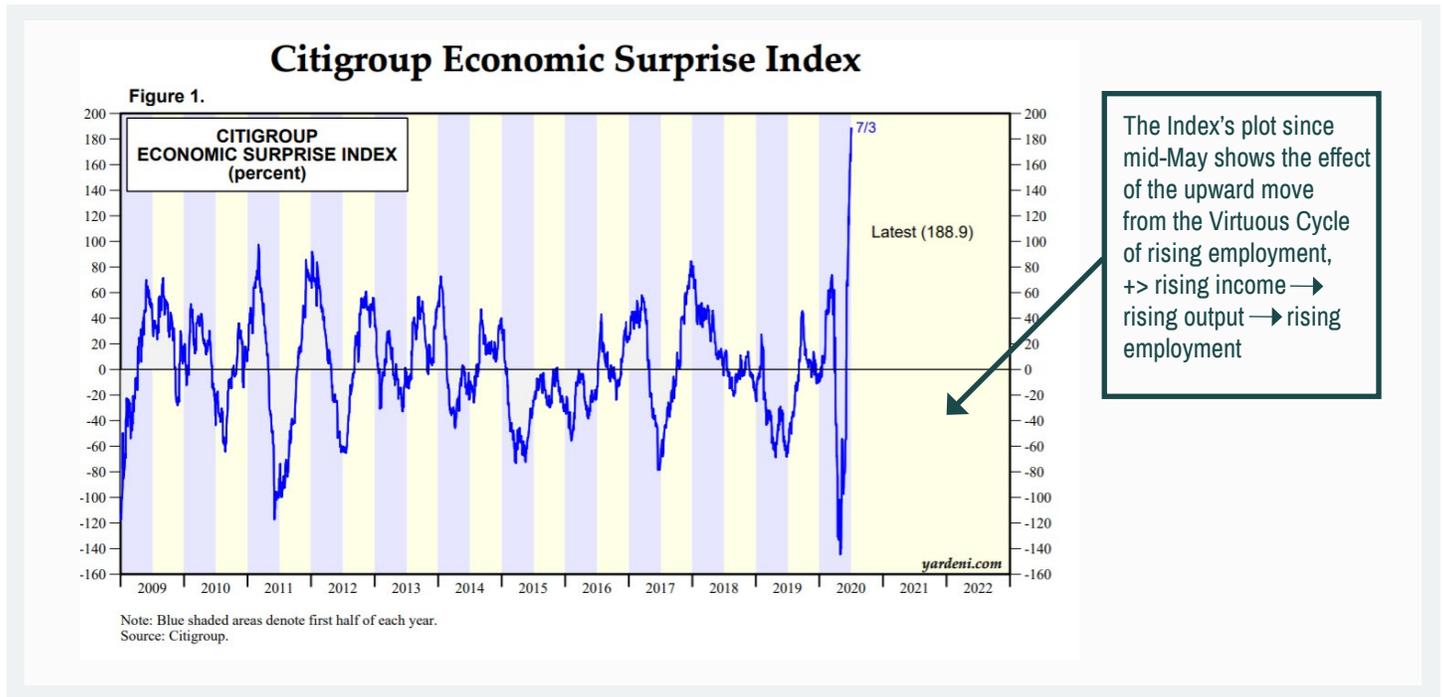
There is a Twitter account started by two University of Vermont professors called *Hedonometer* that measures the average happiness of everyone's tweets. On May 29th, it calculated that the civil unrest created by the death of George Floyd produced the saddest day ever on Twitter. While Twitter has only been in existence since 2006, it is still worth pausing to reflect on the significance of Mr. Floyd's death – and its impact on society – by this and other measures.



What's valuable about Twitter is its immediacy. There is no quicker source for alerting you to what's trending in the public consciousness. But in its strength also lies its weakness because the bad news in the moment often tells us little about the future. The most common question we get from clients now is, "How can the stock market increase so sharply while the pulse of the nation feels so weak?"

For example, what is also noteworthy about the *Hedonometer* chart (and a longer-term version of it that we aren't showing here) is that there is an inverse correlation with the stock market. Twitter happiness has been trending lower since the onset of the financial crisis in 2007-08. The decline has steepened since 2016 with the election of President Trump. During this time, stock prices have moved considerably higher. In the most recent quarter, the S&P 500 index roared back from its coronavirus-fueled sell-off in March to produce its best three-month return since 1998.

The simple answer to that frequently-asked question is that the stock market reacts to what is likely to be happening six months from now rather than what is occurring at this moment. As bad as things may feel, the following chart entitled the *Citigroup Economic Surprise Index*, shows that economic data over the past six weeks has been much better than expected. With COVID-19 deaths more or less stable – and while businesses start to re-open – the economy is healing.



Given the historic steepness of the ascent in this chart, it would be natural to assume some leveling off over the balance of the year. Unemployment is likely to remain persistently high for some time. Bankruptcies are likely to pick up, as government loans have been exhausted. And, economic shutdowns may resume if the current high rate of COVID-19 infections continue. While still constructive on financial assets, this will lead us to be a little more cautious over the course of the year.

As the economy is being reshaped before our eyes – and industries like telemedicine, virtual meetings, on-line shopping, electric vehicles and plant-based meat substitutes, among others, take over – we are seeing a wide disparity in stock valuations. *New Economy* technology stocks have risen sharply this year and now sell at relative valuations that approach the bubble-highs of 1999. Meanwhile, the rest of the market is being left behind. Our investments in the *New Economy* have allowed our portfolios to do well this year, while indices like the S&P 500 have declined. We currently are taking some profits in those investments with extended valuations – and are looking for opportunity in those companies which have been left behind.

One final thought during these isolated, tumultuous times. Earlier this month, the United States celebrated its Day of Independence. Katherine Collins, author of the forthcoming book, *Month of Sundays*, suggests we would all do well to read the Declaration of Independence in its entirety. The document concludes with, "And for the support of this Declaration, with a firm reliance on the protection of Divine Providence, we mutually pledge to each other our Lives, our Fortunes, and our sacred Honor." In declaring our independence 244 years ago, we were really declaring our interdependence. Only together can we truly move ahead.

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